

## Message Text

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ACTION EA-10

INFO OCT-01 ISO-00 CIAE-00 DODE-00 PM-05 H-01 INR-07  
L-03 NSAE-00 NSC-05 PA-01 PRS-01 SP-02 SS-15  
USIA-06 AID-05 EB-08 OMB-01 TRSE-00 ACDA-07 MCE-00  
IGA-02 AGRE-00 COME-00 /080 W  
-----079215 180955Z /15

R 180842Z AUG 77  
FM AMEMBASSY SEOUL  
TO SECSTATE WASHDC 5812

C O N F I D E N T I A L SEOUL 6930

E.O. 11652: GDS  
TAGS: MARR, MASS, ECON, EAID, KS, US  
SUBJECT: ECONOMIC IMPACT OF U.S. TROOP WITHDRAWAL FROM KOREA

SUMMARY: IN CONVERSATION SENATE STAFFDEL, DEPUTY PRIME  
MINISTER NAM INDICATED THAT LOCAL CURRENCY REVENUES FOR  
DEFENSE EXPENDITURES WERE HIS PRINCIPAL FISCAL PROBLEM  
AND THAT CONTINUED PL 480 PROGRAM WOULD HELP EASE DEFENSE  
BURDEN CONSIDERABLY. END SUMMARY.

1. VISITING SENATE STAFFDEL BECKINGTON AND BINNENDIJK  
DISCUSSED ECONOMIC IMPACT OF TROOP WITHDRAWAL WITH MINISTER  
OF ECONOMIC PLANNING NAM TOK-U, AUGUST 10, 1977 MINISTER  
NAM NOTED TROOP WITHDRAWAL WILL CREATE REQUIREMENT FOR A  
SUDDEN LARGE EXPENSE TO BE MET BY LIMITED ROK FISCAL  
RESOURCES. MINISTER NOTED IMPACT DEPENDS ON TAX RATION  
(TAX REVENUES/GNP) WHICH IS NOW 19 PERCENT, RATHER HIGH COMPARED  
TO PER CAPITA GNP IN KOREA. DEFENSE COSTS AMOUNT TO 35 PERCENT  
OF BUDGET IF NARROWLY DEFINED AND IF BROADLY DEFINED TO  
INCLUDE POLICE, ETC., CLOSER TO 40 PERCENT. ADDITIONALLY,  
ROK ECONOMY IN EARLY STAGES OF DEVELOPMENT AND ROK MUST PROVIDE  
SOCIAL OVERHEAD WHICH NOT NECESSARY IN DEVELOPED ECONOMY.  
INFRASTRUCTURE IN ROK (ROADS, HARBORS) MUST BE EXPANDED  
EVERY YEAR AT GOVERNMENT EXPENSE, UNLIKE U.S. WHERE  
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INFRASTRUCTURE ALREADY IN PLACE.

2. MINISTER NAM CLAIMED THAT IF ROK DEFENSE EXPENDITURES  
EXCEED 7 PERCENT OF GNP (TO 8 OR 8.5 PERCENT LEVEL), GROWTH  
RATE WILL BE REDUCED BY AT LEAST 1 PERCENT. ADDITIONALLY,  
DEFENSE EXPENDITURES WILL REQUIRE ADDITIONAL CREDIT, WHICH WILL  
MEAN OTHER INDUSTRIES WILL HAVE TO SUFFER.

3. IN RESPONSE TO QUERY ABOUT POSSIBLE EFFECT OF CONVERSION OF GRANT TURNOVER OF 8TH ARMY EQUIPMENT TO FMS, MINISTER REPLIED THIS WOULD PROBABLY BE A MANGEABLE PROBLEM. NONETHELESS SUCH POLICY BOUND TO HAVE SOME IMPACT. REQUIREMENT TO REPAY NEARLY 10 BILLION DOLLARS IN OVERALL FOREIGN INDEBTEDNESS WILL REQUIRE SACRIFICE OF SOCIAL DEVELOPMENT (E.G. HOUSING, EDUCATION.). IN ORDER TO INCREASE ECONOMIC GROWTH REQUIRED TO COMPENSATE FOR RESULTANT INCREASED FOREIGN EXCHANGE COSTS, INVESTMENT WILL HAVE TO BE MAINTAINED AT HIGH LEVELS. WITH REGARD TO QUESTION ON ROKG CAPABILITY FINANCE MILITARY REQUIREMENTS, MINISTER NOTED LOCAL CURRENCY FINANCING IS IMMEDIATE CONCERN. HE SAID PL 480 WAS GREATEST ROKG CONCERN. KENNEDY AGREEMENT SIGNED IN 1971 WILL RUN OUT IN 1978. NOTING THAT PL 480 LOCAL CURRENCY PROCEEDS CAN BE USED FOR UNSPECIFIED PROJECTS, MINISTER SAID THAT PL 480 ASSISTANCE COULD PROVIDE A VALUABLE MECHANISM FOR OFFSETTING LOCAL CURRENCY SHORTFALLS. HE SAID PL 480 SALE WOULD AMOUNT TO 48 BILLION WON (100 MILLION DOLLARS) IN LOCAL CURRENCY AND WOULD EASE THE IMPACT OF ADDED DEFENSE COSTS ON NON-DEFENSE PORTION OF ECONOMIC PROGRAM.

4. WITH REGARD TO DEFENSE INDUSTRIES, MINISTER NOTED MILITARY HARDWARE WAS LINKED TO MACHINERY AND HEAVY INDUSTRIES AND EPB IS TRYING TO ESTABLISH LINK BETWEEN CIVIL AND MILITARY PRODUCTION. MINISTER NOTED THAT ROK CAPABILITY TO ENGAGE IN DEFENSE PRODUCTION WAS LIMITED TO SUCH RELATIVELY SIMPLE  
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PRODUCTION AS AMMUNITION AND HELICOPTERS.  
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## Message Attributes

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**Disposition Approved on Date:**  
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**Disposition Date:** 22 May 2009  
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**Subject:** ECONOMIC IMPACT OF U.S. TROOP WITHDRAWAL FROM KOREA SUMMARY: IN CONVERSATION SENATE STAFFDEL, DEPUTY PRIME MINISTER NAM INDICATED THAT LOCAL CURRENC Y REVENUE  
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**Review Markings:**  
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